SANTA CLARA VALLEY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT

AND SCHEDULE OF OPERATING COSTS

FOR THE ADVANCED WATER TREATMENT FACILITY

FISCAL YEAR ENDED JUNE 30, 2019

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SANTA CLARA VALLEY WATER DISTRICT
ADVANCED WATER TREATMENT FACILITY
For the Year Ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Santa Clara Valley Water District
San Jose, California

We have audited the accompanying Santa Clara Valley Water District (District) Schedule of Operating Costs (Schedule) of Advanced Water Treatment Facility (AWTF) for the year ended June 30, 2019, and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the financial reporting provisions of the Recycled Water Facilities and Programs Integration Agreement signed on March 2, 2010 between the City of San Jose and the Santa Clara Valley Water District as described in Note 1 of the Schedule. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the operating costs of AWTF for the year ended June 30, 2019, in accordance with the financial reporting provisions of the Recycled Water Facilities and Programs Integration Agreement signed on March 2, 2010 between the City of San Jose and the Santa Clara Valley Water District, described in Note 1 to the Schedule.

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Emphasis of Matters

As discussed in Note 1 to the Schedule, the Schedule is prepared in accordance with the financial reporting provisions of the Recycled Water Facilities and Programs Integration Agreement signed on March 2, 2010 between the City of San Jose and the Santa Clara Valley Water District, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the Schedule, the Schedule is intended to present the operating costs of the AWTF. It does not purport to, and does not, present, fairly the changes in financial position of the District for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to both matters.

Restriction on Use

This report is intended solely for the information and use of the governing bodies and management of the City of San Jose and the District, and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
April 23, 2020

SANTA CLARA WATER DISTRICT
ADVANCED WATER TREATMENT FACILITY

Schedule of Operating Costs
For the Year Ended June 30, 2019

Operating expenses:	
Labor	$2,207,915
Chemical	453,637
Energy	441,636
Other operation and maintenance services & supplies	1,528,306
Total operating expenses	$4,631,494

See accompanying notes to the Schedule of Operating Costs

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SANTA CLARA WATER DISTRICT
ADVANCED WATER TREATMENT FACILITY

Notes to the Schedule
For the Year Ended June 30, 2019

NOTE 1 – GENERAL

A. RECYCLED WATER FACILITIES AND PROGRAMS INTEGRATION AGREEMENT

The City of San Jose, as the administering agency for the San Jose/Santa Clara Water Pollution Control Plant ("Plant"), a joint powers agency of the State of California, manages and operates the South Bay Water Recycling Program and System ("SBWR").

The District is the primary water management agency for Santa Clara County, providing wholesale water supply, groundwater management, and flood management.

In 1990, the City developed the South Bay Action Plan, which was designed to reduce flows from the Plant to South San Francisco Bay to avoid converting the salt marsh habitat of two endangered species, the Salt Marsh Harvest Mouse and the California Clapper Rail. The Action Plan had three main components, water recycling, marsh mitigation, and water conservation. The Plan was approved by the San Francisco Bay Regional Water Quality Control Board and adopted by the City in 1991.

In 1997, the Action Plan was revised to call for expansion of the water recycling and conservation programs as well as several new flow reduction programs. The Revised Plan was approved by the Regional Board in 1997 and incorporated into the Plant (City's) NPDES permit in 1998.

The City began development of SBWR in 1994. The SBWR currently consists of 110 miles of pipe, four pump stations, and three reservoirs and serves nearly 600 customers with an average of approximately 10,000 acre-feet annually of recycled water.

The District Board is committed to ensuring that the water supply for Santa Clara County meets or exceeds all applicable water quality regulatory standards. The District, as the groundwater management agency for the county, aggressively protects the groundwater basins from contamination and the threat of contamination.

On April 7, 1998, City and District entered into an Agreement entitled "South Bay Water Recycling Reimbursement Agreement For Development And Utilization Of Non-potable Recycled Water Between The Santa Clara Valley Water District And City of San Jose", providing for payment by District to City for water produced and distributed by SBWR that offsets District supplies (the "1998 Reimbursement Agreement"). This 1998 Reimbursement Agreement, as extended by the Parties, expired on June 30, 2009.

In 2000, the City began, and District participated in, a multi-stakeholder process to develop a long-term master plan for the SBWR program. The findings of that process confirmed the importance of the linkage between the SBWR program and the District's Integrated Water Resource Plan ("IWRP") and the need for a long-term collaboration between the City and the District.

The District completed its second Integrated Water Resources Plan (IWRP) in 2003. The District Board of Directors adopted new Ends Policies in 2005 following completion of IWRP 2003. Some of these new policies recognized the need for all weather water supplies and placed value on local water supplies.

NOTE 1 – GENERAL (Continued)

In 2003, the Parties began collaborating on design, construction and operation an advanced treated recycled water facility and related facilities (AWTF), to be located on lands owned by the Plant, in order to demonstrate the treatment capability of a local AWTF to produce highly purified water that will be blended with existing recycled water to expand irrigation and industrial uses.

In 2005, the District, with City support, submitted a proposal to the State of California for grant funding for the AWTF, as part of the State's Proposition 50, Chapter 8, grant process. Approximately Three Million Dollars ($3,000,000) in State grant funding has been approved for the AWTF.

In 2009, the AWTF was authorized for federal funding and is identified to receive federal appropriations from the Federal Recovery and Reinvestment Act of 2009 in the amount of $8.25 million.

The proposed AWTF will accept up to twelve (12) million gallon per day (mgd) Plant secondary effluent for treatment through microfiltration, at a cost saving to the Plant for tertiary treatment that would otherwise be required to be provided the Plant; will increase the reliable production of non-potable recycled water through microfiltration; will enhance the quality of non-potable recycled water quality through the provision of up to 8 mgd reverse osmosis treated water for blending with the Plant's existing non-potable water; and will offset the demand for development of new sources of water supply for Santa Clara County.

The Parties desire to financially support the production and use of recycled water in Santa Clara County consistent with each Party's separate and distinct interests: for wastewater treatment and disposal for the City, and water quality and supply for the District, as well as to coordinate and cooperate to achieve the most cost effective, environmentally beneficial utilization of recycled water to meet both water supply and wastewater treatment and disposal needs.

On March 2, 2010, the Santa Clara Valley Water District and the City of San José signed a 40-year agreement to build the new Advanced Water Treatment facility (AWTF) and increase the use of recycled water in Santa Clara County.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying Schedule is intended to present the AWTF's operating costs pursuant to the Recycled Water Facilities and Programs Integration Agreement and is not intended to be a complete presentation of the AWTF's or the District's financial position. The AWTF's transactions are accounted for using the full accrual basis of accounting. The AWTF has no revenues. Expenses are recognized when the liability is incurred.

C. FINANCIAL REPORTING ENTITY

This Schedule was established to account for the costs of the AWTF incurred by the District. The Schedule is not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

SANTA CLARA WATER DISTRICT
ADVANCED WATER TREATMENT FACILITY

Notes to the Schedule
For the Year Ended June 30, 2019

NOTE 2 – BUDGETED SINKING FUND

The budgeted sinking fund is money reserved for the replacement of expendable supplies such as membranes and lamps specifically for the AWTF project. The District put aside this fund based on the adopted budget. The accumulated sinking fund was $1,906,000 at the beginning of the fiscal year and was reduced to $1,066,000 by end of the fiscal year, as $840,000 was encumbered for the replacement of the reverse osmosis membrane.